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California Safe Drinking Water Bond Law Of 1988

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California Safe Drinking Water Bond Law of 1988

Official Title and Summary Prepared by the Attorney General

CALIFORNIA SAFE DRINKING WATER BOND LAW OF 1988. This act provides for a bond issue of seventy-five million dollars (\$75,000,000) to provide funds for improvement of domestic water systems to meet minimum drinking water standards.

Final Vote Cast by the Legislature on AB 1439 (Proposition 81)

Assembly: Ayes 70
Noes 3

Senate: Ayes 33
Noes 0

Analysis by the Legislative Analyst

Background

Since 1976, the state has made loans and grants through the California Safe Drinking Water Program to help pay for improvements to local drinking water systems in order to meet state health standards. The state has sold general obligation bonds to raise this money. All but about \$44 million of the \$350 million authorized by previous bond acts will be spent or committed by November 1988.

The Department of Water Resources administers the Safe Drinking Water Program in cooperation with the Department of Health Services.

Proposal

This measure authorizes the state to sell \$75 million of general obligation bonds to make low-interest loans and grants for local drinking water systems. The Department of Water Resources would use the money from the sale of the bonds for loans to public and private water suppliers and grants to public agencies to bring drinking water quality up to state health standards. The loans and grants could be used for building, improving, or repairing water systems to meet drinking water standards and for improvements to save water.

General obligation bonds are backed by the state, meaning that the state will use its taxing power to assure that enough money is available to pay off the bonds. Revenues deposited in the state's General Fund would be used to pay the principal and interest costs on these bonds. General Fund revenues come primarily from the state corporate and personal income taxes and the state sales tax.

Loans and Grants. At least \$45 million of the bond money would be available for loans. First priority for the loans would go to water suppliers whose facilities pose the most critical public health problems. The maximum loan to any water supplier would be \$5 million, unless the Legislature raises this limit. The interest rate on these loans would be subsidized by an amount equal to one-half of the interest rate that the state would pay on the bonds. Thus, the state's interest costs would exceed the interest that could be charged on the loans.

Although the remaining \$30 million also could be used for loans, the measure would allow the Department of

Water Resources to provide up to \$25 million for grants to public agencies that supply drinking water for that portion of the cost of a project that the public agency is not capable of repaying. The maximum grant to any public agency would be \$400,000, and the Legislature would have to approve each grant. No more than \$6 million of the bond money could be used for studies to identify ways of improving local drinking water systems.

Administrative and Legal Costs. The measure would allow up to \$3.8 million of the bond money to be spent for administrative costs of the Departments of Water Resources and Health Services to make the loans. These costs would be repaid from fees charged to the loan recipients. In addition, up to \$1.1 million of the bond funds could be used to pay legal costs of the Attorney General. The Department of Water Resources and the Attorney General also could spend up to \$1.3 million of the loan repayments to cover ongoing administrative and legal costs over the life of the loans.

Fiscal Effect

Net Cost of Paying Off the Bonds. The bonds authorized by this measure probably would be paid off over a period of about 35 years, and would be a responsibility of the state's General Fund. The total cost of the bonds would be about \$200 million, consisting of \$75 million for principal and \$125 million for interest.

However, because the loans would be repaid (with a subsidized rate of interest), the *net* state cost would be about \$110 million, or an average of about \$3 million per year. (The net state cost would consist of \$60 million for the bonds used for grants and about \$50 million for the interest rate subsidy on the loans, plus ongoing administrative and legal expenses.)

This estimate assumes that all of the bonds would be sold at an average interest rate of 7.5 percent, and that both the bonds and the loans would be paid off over the same 35-year period in effect under the current Safe Drinking Water Program.

Borrowing Costs for Other Bonds. By increasing the amount which the state borrows, this measure may cause the state and local governments to pay more under other bond programs. These costs cannot be estimated.

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Borrowing Costs for Other Bonds. By increasing the amount which the state borrows, this measure may cause the state and local governments to pay more under other bond programs. These costs cannot be estimated.

State Revenues. The people who buy these bonds are not required to pay state income tax on the interest they earn. Therefore, if California taxpayers buy these bonds

instead of making other taxable investments, the state would collect less taxes. This loss of revenue cannot be estimated.

Text of Proposed Law

This law proposed by Assembly Bill 1439 (Statutes of 1988, Ch. 45), as amended by Assembly Bill 1720 (Statutes of 1988, Ch. 297), is submitted to the people in accordance with the provisions of Article XVI of the Constitution.

This proposed law adds sections to the Water Code; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

SECTION 1. Chapter 16 (commencing with Section 14000) is added to Division 7 of the Water Code, to read:

CHAPTER 16. CALIFORNIA SAFE DRINKING WATER BOND LAW OF 1988 Article 1. General Provisions

14000. This chapter shall be known and may be cited as the California Safe Drinking Water Bond Law of 1988.

14001. The Legislature hereby finds and declares all of the following:

(a) The State Department of Health Services has discovered toxic chemicals in 126 of California's large public drinking water systems.

(b) Many of the chemical contaminants in California's drinking water supplies are known or suspected of causing cancer, birth defects, and other serious illnesses.

(c) New monitoring programs for small public water systems are expected to identify many new toxic contamination problems. It is unlikely that these problems can be solved without financial assistance from the State of California.

14002. The Legislature further finds and declares that the protection of the health, safety, and welfare of the people of California requires that water supplied for domestic purposes be at all times pure, wholesome, and potable, and that it is in the interest of the people that the State of California provide technical and financial assistance to the end that the people of California are assured a safe, dependable, and potable supply of water for domestic purposes and that water is available in adequate quantity at sufficient pressure for health, clean, and other domestic purposes.

14003. The Legislature further finds and declares that it is the intent of the Legislature to provide for the upgrading of domestic water supply systems to assure that all domestic water supplies at least meet minimum domestic water supply standards established under Chapter 7 (commencing with Section 4010) of Part 1 of Division 5 of the Health and Safety Code.

14004. As used in this chapter, the following terms shall have the following meanings:

(a) "Committee" means the Safe Drinking Water Finance Committee created by Section 14032.

(b) "Cost-per-connection" means the total amount of funds in grants or loans, or combination thereof, to be provided by the department to a supplier for any project, divided by the number of service connections in the water system.

(c) "Department" means the Department of Water Resources.

(d) "Domestic water system" means a system for the provision to the public of piped water for human consumption, if the system has at least five service connections or regularly supplies water to at least 25 individuals. The term includes any water supply, treatment, storage, and distribution facilities under the control of the operator of the system.

(e) "Fund" means the California Safe Drinking Water Fund created pursuant to Section 14010.

(f) "Supplier" or "supplier of water" means any person, partnership, corporation, association, or other entity or political subdivision of the state which owns or operates a domestic water system.

(g) "Federal assistance" means funds available, or which may become available, to a supplier either directly or through allocation by the state from the federal government as grants or loans for the improvement of domestic water systems.

(h) "Treatment works" means any devices or systems used in the treatment of water supplies, including necessary lands, which render water supplies pure, wholesome, and potable for domestic purposes.

(i) "Project" means proposed facilities for the construction, improvement, or rehabilitation of the domestic water system, and may include water supply, treatment works, and all or part of a water distribution system, if necessary to carry out the purpose of this chapter.

"Public agency" means any city, county, city and county, joint powers authority, or other political subdivision of the state which owns or operates a domestic water system. For purposes of this chapter, Chapter 10.2 (commencing with Section 13810), Chapter 10.5 (commencing with Section 13850), Chapter 10.6 (commencing with Section 13880), and Chapter 10.7 (commencing with Section 13895) a

political subdivision of the state may be any public agency.

Article 2. California Safe Drinking Water Program

14010. The proceeds of bonds issued and sold pursuant to this chapter shall be deposited in the California Safe Drinking Water Fund, which is hereby created.

14011. (a) Notwithstanding Section 13340 of the Government Code, an aggregate amount of seventy-five million dollars (\$75,000,000) of the moneys in the fund are hereby continuously appropriated and shall be used for the purposes set forth in this section and Section 14029.

(b) The department may enter into contracts with suppliers having authority to construct, operate, and maintain domestic water systems, for loans to suppliers to aid in the construction of projects which will enable the supplier to meet, at a minimum, safe drinking water standards established pursuant to Chapter 7 (commencing with Section 4010) of Part 1 of Division 5 of the Health and Safety Code.

(c) Any contract entered into pursuant to this section may include provisions as agreed by the parties thereto, and the contract shall include, in substance, all of the following provisions:

(1) An estimate of the reasonable cost of the project.

(2) An agreement by the department to loan to the supplier, during the progress of construction or following completion of construction as agreed by the parties, an amount which equals the portion of construction costs found by the department to be eligible for a state loan.

(3) An agreement by the supplier to repay the state over a period not to exceed 50 years, (A) the amount of the loan, (B) the administrative fee as described in Section 14022, and (C) interest on the principal, which is the amount of the loan plus the administrative fee.

(4) An agreement by the supplier, (A) to proceed expeditiously with, and complete, the project, (B) to commence operation of the project upon completion thereof, and to properly operate and maintain the project in accordance with the applicable provisions of law, (C) to apply for, and make reasonable efforts to secure, federal assistance for the project, (D) to secure approval of the department and of the State Department of Health Services before applying for federal assistance in order to maximize and best utilize the amounts of that assistance available, and (E) to provide for payment of the supplier's share of the cost of the project, if any.

(d) Bond proceeds may be used for a grant program in accordance with this chapter, with grants provided to suppliers that are political subdivisions of the state that are otherwise unable to meet minimum safe drinking water standards established pursuant to Chapter 7 (commencing with Section 4010) of Part 1 of Division 5 of the Health and Safety Code. The total amount of grants made pursuant to this chapter shall not exceed twenty-five million dollars (\$25,000,000).

(e) Notwithstanding any other provision, the proceeds of any bonds authorized to be issued under the California Safe Drinking Water Bond Law of 1976 (Chapter 10.5 (commencing with Section 13850)), the California Safe Drinking Water Bond Law of 1984 (Chapter 10.2 (commencing with Section 13810)), and the California Safe Drinking Water Bond Law of 1986 (Chapter 10.7 (commencing with Section 13895)) which are unissued and uncommitted on the effective date of this chapter, shall be used for loans and grants to suppliers in accordance with the terms, conditions, and purposes of this chapter.

(f) The Treasurer shall determine the interest rate to be paid on loans issued under the Safe Drinking Water Bond Law of 1976 (Chapter 10.5 (commencing with Section 13850)), as required under Section 13867, equal to the average interest rate, computed by the true interest cost method, paid by the state on general obligation bonds sold pursuant to that chapter up to the effective date of this chapter.

14012. (a) The department may make state grants to suppliers that are political subdivisions of the state, from moneys in the fund available for that purpose pursuant to subdivision (d) of Section 14011, to aid in the construction of projects which will enable the public agency to meet, at a minimum, safe drinking water standards established pursuant to Chapter 7 (commencing with Section 4010) of Part 1 of Division 5 of the Health and Safety Code. A grant may be made by the department only upon the specific approval of the Legislature.

(b) Any contract for a grant entered into pursuant to this chapter may include provisions as agreed by the parties thereto, and the contract shall include, in substance, all of the following provisions:

(1) An estimate of the reasonable cost of the project.

(2) An agreement by the department to grant to the public agency, during the progress of construction or following completion of construction as agreed by the parties, an amount which equals the portion of construction costs found by the department to be eligible for a state grant.

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Argument in Favor of Proposition 81

Vote yes on Proposition 81, the California Safe Drinking Water Bond Law of 1988.

Ensuring safe drinking water and the public health is a fundamental responsibility of the state. Citizens have recognized this need and responsibility in the past with their overwhelming approval of drinking water bond issues in 1976, 1984 and 1986.

Despite these efforts, we still have safe drinking water needs. The Department of Health Services' priority list to distribute bond funds, including funds under the recent 1986 bond issue, has applications totaling approximately one billion dollars. These applications far exceed the funds currently available. This means that significant numbers of Californians will continue to drink polluted water that fails to meet federal and state public health standards. The Safe Drinking Water Bond Law of 1988 will address this urgent problem.

California's economic growth as well as our quality of life depends upon the availability of safe drinking water for all of our citizens. The 1988 Safe Drinking Water Bond Law will assist local communities in modernizing their water systems and meeting direct health threats by bringing their drinking water up to primary drinking water standard levels. This bond law will provide a total of \$75 million in grants and loans. Grants will be provided

only to eligible public agencies and the total grant amount will be capped at \$25 million out of the entire bond issue. Grants and loans will be made on the basis of immediate health-related problems certified by the Department of Health Services.

Support for this bond law is widespread and bipartisan. It is supported by the Association of California Water Agencies, the Health Officers Association of California, the California Municipal Utilities Association, and the League of Women Voters.

The Department of Health Services continues to add community water suppliers to its priority health hazard list as new sources of contamination are discovered and as new drinking water standards are established. This effort deserves your support. While we will not fully solve California's drinking water problems with this bond law, it will help us meet our most immediate needs. The safety of our communities and the health of our children deserve no less.

Support safe drinking water for all Californians. Vote YES on Proposition 81.

BILL LEONARD

Member of the Assembly, 61st District

JACK O'CONNELL

Member of the Assembly, 35th District

Rebuttal to Argument in Favor of Proposition 81

The supporters of this measure are convinced that the state government must be in charge of water programs, and that voters must give a blanket seal of approval to all potential water projects. We disagree.

Voters have no way of knowing whether each of the local projects to be funded by this bond measure is necessary or cost-effective—or just a boondoggle. Local water districts could present their own proposals to local voters for approval. People in a community are better informed about the merits of each project. If approved, the bonds would be paid off by the taxpayers who would directly benefit, not taxpayers statewide. Voters in other counties have no idea who is polluting the water and who should pay the costs of providing safe drinking water.

The politicians in Sacramento support bond measures as a painless way of financing popular programs. Buying a

stereo or a refrigerator with a credit card is painless too—until the bill arrives. Taxpayers (and their children and grandchildren) will be stuck paying the bill for 20 years, a painful proposition indeed.

Don't vote "yes" because you are afraid of unclean water. Vote NO to show your support for financial responsibility and a desire for an alternative. Vote NO on Proposition 81.

JERRY R. DOUGLAS

Director, Topanga-Las Virgenes Resource Conservation District

TED BROWN

*Chairman, Libertarian Party of California
Candidate for U.S. Congress, 22nd District*

KIM J. GOLDSWORTHY

*Southern Vice Chairman, Libertarian Party of California
Candidate for U.S. Congress, 30th District*

California Safe Drinking Water Bond Law of 1988

81

Argument Against Proposition 81

Proposition 81 asks for \$75 million in bonds for the construction, improvement, and rehabilitation of domestic water supplies. We urge you to vote NO.

Voters approved \$150 million in bonds for similar water projects in the November 1986 election, only two years ago. We wonder what the politicians and bureaucrats have done with all that money in the meantime.

In any event, the time has come to start examining private alternatives to the rapidly failing government water system in California. The huge growth industry in bottled water shows conclusively that people no longer trust the quality of water, and they don't trust the government systems that provide it.

Privatization of water supplies is a good alternative. In France, for example, private companies are the major suppliers of water. It is no coincidence that French firms are dominant internationally in research and development, in equipment manufacture, and in the management and provision of water services.

One-fourth of the water in the United States is supplied by private, investor-owned companies. Hawaii's water is almost completely privately supplied. And the nation's largest single private water system is right here in San Jose, where the 122-year-old San Jose Water Company provides 90% of the city's water to 200,000 hookups.

In England, where the federal government owns all

domestic waterworks, Prime Minister Margaret Thatcher has proposed a public stock offering to privatize that entire system. Other money-wasting, publicly run institutions in England have already been privatized, with much success.

What officials in England, France, and San Jose have realized is that private water firms are more efficient and economical than government agencies. Private owners have significant incentives to keep costs down by monitoring the behavior of managers and employees and supplying what consumers demand. No one can claim that government agencies and their employees ever try to save money.

California can enter a new era of extended free enterprise, and residential water customers can enjoy lower rates, if this bond measure is rejected. A serious shift to privatization is the way to go. Vote NO on Proposition 81.

JERRY R. DOUGLAS

*Director, Topanga-Las Virgenes Resource
Conservation District*

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Rebuttal to Argument Against Proposition 81

The argument against Proposition 81 misses the point. Voting for Proposition 81 would help alleviate a health problem as it exists today, and does not prevent us from finding alternative solutions tomorrow.

However, to bury our heads in the sand and think of how our water system should be run will not meet our challenge of providing clean drinking water to millions of Californians right now.

Currently the state maintains a list of approximately 2,000 water systems that need to improve their water systems, and are interested in financing to help them make these improvements. These represent a total of about \$1 billion of financial need. Often funding through commercial lenders or local municipal bonds is not available.

The state can continue to make a source of financing available, as it has since 1976, through bond issues. The 1986 Safe Drinking Water Bond Law made available \$100 million for local water system improvements. As of June 1988, the state has already received applications totaling over \$91 million for these funds.

Vote YES on Proposition 81 so that California's small communities, served by either public or private systems, have financial means to construct badly needed improvements to protect public health.

BILL LEONARD

Member of the Assembly, 61st District

JACK O'CONNELL

Member of the Assembly, 35th District

Proposition 79: Text of Proposed Law

Continued from page 9

17698.60. In computing the net interest cost under Section 16754 of the Government Code, interest shall be computed from the date of the bonds or the last preceding interest payment date, whichever is latest, to the respective maturity dates of the bonds then offered for sale at the coupon rate or rates specified in the bid, the computation to be made on a 360-day-year basis.

17698.70. The committee may authorize the Treasurer to sell all or any part of the bonds herein authorized at such time or times as may be fixed by the Treasurer.

17698.80. All proceeds from the sale of the bonds herein authorized deposited in the fund, as provided in Section 16757 of the Government Code, except those derived from premium and accrued interest, shall be available for the purpose herein provided, but shall not be available for transfer to the General Fund pursuant to Section 17698.25 to pay principal and interest on bonds.

17698.90. With respect to the proceeds of bonds authorized by this chapter, all provisions of Chapter 22 (commencing with Section 17700) shall apply.

17698.93. Any bonds issued and sold pursuant to this chapter may be refunded by the issuance and sale or exchange of refunding bonds in accordance with Article 6 (commencing with Section 16780) of Chapter 4 of Part 3 of Division 4 of Title 2 of the Government Code. The approval by the electors of this state of the issuance and sale of bonds under this chapter includes approval of the issuance and sale or

exchange of any bonds issued to refund either those bonds or any previously issued refunding bonds.

17698.95. Out of the first money realized from the sale of bonds under this chapter, there shall be repaid any moneys advanced or loaned to the State School Building Lease-Purchase Fund under a: of the Legislature, together with interest provided for in that act.

17698.96. (a) Of the proceeds from the sale of bonds pursuant to this chapter:

(1) Not more than one hundred million dollars (\$100,000,000) may be used for the reconstruction or modernization of facilities within the meaning of Chapter 22 (commencing with Section 17700).

(2) Not more than twenty million dollars (\$20,000,000) may be used for the purchase and installation of air-conditioning equipment and insulation materials pursuant to Section 42250.1.

(3) Not more than one hundred million dollars (\$100,000,000) may be used for the identification, assessment, and abatement of hazardous asbestos in school facilities.

(b) Notwithstanding subdivision (a), in the event the board determines at any time that the maximum amount made available pursuant to any of the paragraphs in that subdivision exceeds the amount necessary to fund the qualified recipients of the apportionment authorized under that paragraph, the board may expend any portion of that excess for the construction of new school facilities pursuant to Chapter 22 (commencing with Section 17700) or for any one or more of the purposes described in subdivision (a).

Proposition 80: Text of Proposed Law

Continued from page 13

has by resolution authorized to be sold for the purpose of carrying out this chapter. The board shall execute any documents required by the Pooled Money Investment Board to obtain and repay the loan. Any amounts loaned shall be deposited in the fund to be allocated by the board in accordance with this chapter.

7411. Any bonds issued and sold pursuant to this chapter may be refunded by the issuance of refunding bonds in accordance with Article 6 (commencing with Section 16780) of Chapter 4 of Part 3 of Division 2 of Title 2 of the Government Code. Approval by the electors of the state for the issuance of bonds shall include the approval of the issuance of any bonds issued to refund any bonds originally issued or any

previously issued refunding bonds.

7412. All proceeds from the sale of bonds, except those derived from premiums and accrued interest, shall be available for the purpose provided in Section 7406 but shall not be available for transfer to the General Fund to pay the principal of and interest on bonds. The money in the fund may be expended only as herein provided.

7413. Money in the fund may only be expended pursuant to appropriations by the Legislature.

7414. The Legislature hereby finds and declares that, inasmuch as the proceeds from the sale of bonds authorized by this chapter are not "proceeds of taxes" as that term is used in Article XIII B of the California Constitution, the disbursement of these proceeds is subject to the limitations imposed by that article.

Proposition 81: Text of Proposed Law

Continued from page 17

(3) An agreement by the public agency, (A) to proceed expeditiously with, and complete, the project, (B) to commence operation of the project upon completion thereof, and to properly operate and maintain the project in accordance with the applicable provisions of law, (C) to apply for, and make reasonable efforts to secure, federal assistance for the project, (D) to secure approval of the department and of the State Department of Health Services before applying for federal assistance in order to maximize and best utilize the amounts of that assistance available, and (E) to provide for payment of the public agency's share of the cost of the project, if any.

14013. Applications for loans and grants under this chapter shall be made to the department in the form and with the supporting material as prescribed by the department.

14014. The department shall prepare an annual report on all grant commitments made, or grant contracts entered into, pursuant to this chapter. The report shall be filed with the Legislature, if it is in session or, if it is not in session, with the Joint Rules Committee. The report shall be filed on or before January 31 of each year for grant commitments made, or grant contracts entered into, by the department during the previous calendar year.

14015. (a) Loans and grants may be made only for projects for domestic water systems. The State Department of Health Services may make reasonable allowance for future water supply needs and may provide for additional capacity when excessive costs would be incurred by later enlargement. The loans and grants may be made for all, or any part, of the cost of constructing, improving, or rehabilitating any system when, in the judgment of the State Department of Health Services, improvement or rehabilitation is necessary to provide pure, wholesome, and potable water in adequate quantity at sufficient pressure for health, cleanliness, and other domestic purposes. The State Department of Health Services shall determine and notify applicants of eligibility of components requested to be included in the proposed project. The department shall use this determination as a basis for disbursing funds. No single public agency shall receive grants pursuant to this chapter totaling more than four hundred thousand dollars (\$400,000). Loans may be made to provide for the purchase of a water system or the purchase of watershed lands. No loan to an individual supplier shall exceed the sum of five million dollars (\$5,000,000), unless

the Legislature by an act raises the limit specified in this section.

(b) Upon receipt of an application for a grant or loan pursuant to this chapter, the department shall propose to the applicant improvements to the applicant's water development, distribution, and utilization system which will conserve water in a cost-effective manner. These improvements may include, but need not be limited to, leak detection and repair programs, valve repair and replacement, meter calibration and replacement, physical improvements to achieve corrosion control, distribution and installation of water conservation devices and fixtures, and other capital improvements which can be demonstrated to conserve water in a cost-effective manner. The department and applicant may agree to include these capital improvements in the grant or loan. Failure by the applicant to include water conservation capital improvements in the grant or loan application shall not be sufficient cause for the department to refuse to make the grant or loan.

14016. An application for a grant pursuant to this chapter shall not be approved by the department, unless the State Department of Health Services determines that the public agency is otherwise unable to meet minimum safe drinking water standards established pursuant to Chapter 7 (commencing with Section 4010) of Part 1 of Division 5 of the Health and Safety Code.

No grant shall be made by the department except upon approval by the State Department of Health Services of project plans submitted by the applicant and upon written approval by the State Department of Health Services that the proposed project is consistent with Chapter 7 (commencing with Section 4010) of Part 1 of Division 5 of the Health and Safety Code.

14017. First priority for grants shall be granted to public agencies having immediate health related problems, as certified by the State Department of Health Services. Additional high priority shall be granted to projects to correct immediate problems, as opposed to grants for construction of projects to meet future growth needs.

14018. First priority for loans shall be given to suppliers with the most critical public health problems. Priority for loans shall also be given to suppliers which have a lesser capability to reasonably finance system improvements.

14019. Preliminary design work, including a cost estimate for the project, shall be completed before a loan or grant is awarded. Operation and maintenance costs shall be the responsibility of the supplier and may not be considered as part of the project cost. Costs for planning and

preliminary engineering studies may be reimbursed following the receipt of a loan or grant, subject to approval by the department and the State Department of Health Services.

14020. No application for a grant may be made pursuant to this chapter unless the public agency has also applied for a loan pursuant to this chapter. A public agency shall be eligible for a grant only to the extent that the department finds that the agency is found unable to pay the full costs of a loan.

If the department has determined that the applicant is unable to repay the full costs of a loan, the applicant may also file for a grant. Upon receipt of a grant application, the department shall determine that portion of the full costs that the applicant is capable of repaying. Grant funds shall only be provided for that portion that the applicant is not capable of repaying.

14021. Grant funds shall be expended by the public agency within three years of the making of the grant. No grant funds may be expended by the public agency unless the public agency is able to demonstrate to the department, within one year of the making of the grant, supported by an acceptable bid, that the amount to be expended for the project will be within 20 percent of the public agency's cost estimate for the project.

14022. For the purpose of administering this chapter, the total expenditures of the department and the State Department of Health Services may not exceed 5 percent of the total amount of the bonds authorized to be issued under this chapter. The department shall establish a reasonable schedule of administrative fees for loans, which fees shall be paid by the supplier pursuant to Section 14011, to reimburse the state for the costs of state administration of this chapter.

Charges incurred by the Attorney General in protecting the state's interests in the use and repayment of grant and loan funds under this chapter shall be paid from the proceeds of bond sales under this chapter. These charges shall not be paid from funds allocated for administrative purposes, but shall be treated as a program expense not to exceed 1.5 percent of the total amount of the bonds authorized to be sold under this chapter.

14023. Repayment of all or part of the principal, which is the loan plus the administrative fee, may be deferred during a development period not exceeding 10 years within the maximum 50-year repayment period, when, in the department's judgment, the development period is justified under the circumstances. Interest on the principal shall not be deferred. Repayment of principal which is deferred during a development period may, at the option of the supplier, be paid in annual installments during the remainder of the loan repayment period.

14024. The department shall establish the interest rate for loans pursuant to this chapter at 50 percent of the true interest cost to the state of general obligation bonds issued most recently prior to the loan being executed. All loans made pursuant to this chapter shall carry the established interest rate for the calendar year in which the funds are committed to the loan, as of the date of the letter of commitment from the department, and shall remain at that interest rate for the duration of the loan.

14025. (a) The department, after public notice and hearing and with the concurrence of the State Department of Health Services, shall adopt rules and regulations necessary to carry out the purposes of this chapter. The regulations shall include, but not be limited to, criteria and procedures for establishing the eligibility of a supplier.

(b) The department shall adopt rules and regulations that, in its judgment, will most effectively carry out this chapter in the public interest, to the end that the people of California are most efficiently and most economically provided supplies of pure, wholesome, and potable domestic water. The rules and regulations may provide for the denial of funds when the purposes of this chapter may most economically and efficiently be attained by means other than the construction of the proposed project.

(c) Notwithstanding subdivision (a) or any other provision of law, existing rules and regulations adopted by the department pursuant to the California Safe Drinking Water Bond Law of 1984 (Chapter 10.2 (commencing with Section 13810)) which are in effect on the effective date of this chapter, may, at the option of the department, be utilized upon voter approval of this chapter for purposes of implementing this chapter. The department, with the concurrence of the State Department of Health Services, may subsequently revise those rules and regulations pursuant to Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code as necessary to implement provisions of this chapter which differ from Chapter 10.2 (commencing with Section 13810) or Chapter 10.7 (commencing with Section 13895) or for any other reason to carry out the purposes of this chapter.

14026. The State Department of Health Services shall notify suppliers that may be eligible for loans pursuant to this chapter of (a) the purposes of this chapter and (b) the rules and regulations adopted by the department.

14027. (a) The State Department of Health Services, after public notice and hearing and with the advice of the department, shall, from time to time, establish a priority list of projects to be considered for financing.

(b) Notwithstanding subdivision (a) or any other provision of law, the priority list established by the State Department of Health Services pursuant to the California Safe Drinking Water Bond Law of 1986

(Chapter 10.7 (commencing with Section 13895)) in effect on the effective date of this chapter may, at the option of the State Department of Health Services, be utilized upon voter approval of this chapter until the State Department of Health Services adopts a new priority list.

14028. Not more than twenty-five million dollars (\$25,000,000) of state loans for projects shall be authorized by the department in a single calendar quarter. No contract shall be approved by the department, unless the department finds that the supplier has the capacity to repay the loan amounts specified in the contract.

At the request of the department, the Public Utilities Commission shall furnish comments concerning the ability of suppliers subject to its jurisdiction to finance the project from other sources and the ability to repay the loan.

14029. (a) As approved annually by the Legislature in the Budget Act, the department, notwithstanding Section 14022, may expend money repaid to the state pursuant to any contract executed under Section 14011 as necessary for the administration of contracts entered into by the department under this chapter, but those expenditures may not in any year exceed 1.5 percent of the amount repaid to the state in that year. Charges incurred by the Attorney General in protecting the state's interest in the use and repayment of grant and loan funds under this chapter may be paid by the department from these funds, but those charges may not exceed one-half of 1 percent of the amount repaid to the state in that year. Any of the above sums approved by the Legislature, but unexpended by the department at the end of any year, shall automatically revert to the General Fund.

(b) Except as provided in subdivision (a), all money repaid to the state pursuant to any contract executed under Section 14011 shall be deposited in the General Fund and, when so deposited, shall be applied as a reimbursement to the General Fund on account of principal and interest on bonds issued pursuant to this chapter which has been paid from the General Fund.

(c) The department may enter into contracts with suppliers of water for grants or short-term loans for the purpose of investigating and identifying alternatives for system improvements. Any loans or grants pursuant to this section shall be made from the fund. No supplier may receive for a single investigation more than twenty-five thousand dollars (\$25,000) in the form of a loan or grant pursuant to this section. The State Department of Health Services shall review all proposed investigations and shall determine if they are necessary and appropriate.

(d) Any contract entered into pursuant to this section shall include terms and conditions consistent with this chapter, and any loan contract shall provide for a repayment period not to exceed 24 months.

(e) Not more than six million dollars (\$6,000,000) may be expended for the purposes of this section, of which not more than two million dollars (\$2,000,000) may be used for grants to public agencies. A loan or grant made for the purposes of this section shall not decrease the maximum amount of any other loan or grant which may be made under this chapter, Chapter 10.2 (commencing with Section 13810), Chapter 10.5 (commencing with Section 13850), Chapter 10.6 (commencing with Section 13880), or Chapter 10.7 (commencing with Section 13895).

Article 3. Fiscal Provisions

14030. Bonds in the total amount of seventy-five million dollars (\$75,000,000), exclusive of refunding bonds issued pursuant to Section 14039, or so much thereof as is necessary, may be issued and sold to provide a fund to be used for carrying out the purposes expressed in this chapter and to be used to reimburse the General Obligation Bond Expense Revolving Fund pursuant to Section 16724.5 of the Government Code. All bonds herein authorized, which shall have been duly sold and delivered as herein provided, shall constitute valid and legally binding general obligations of the State of California, and the full faith and credit of the State of California are hereby pledged for the punctual payment of both principal and interest thereof.

14031. The bonds authorized by this chapter shall be prepared, executed, issued, sold, paid, and redeemed as provided in the State General Obligation Bond Law (Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the Government Code), and all of the provisions of that law apply to the bonds and to this chapter and are hereby incorporated in this chapter as though set forth in full in this chapter.

14032. (a) Solely for the purpose of authorizing the issuance and sale, pursuant to the State General Obligation Bond Law, of the bonds authorized by this chapter, the California Safe Drinking Water Finance Committee is hereby created. For purposes of this chapter, the California Safe Drinking Water Finance Committee is "the committee" as that term is used in the State General Obligation Bond Law. The committee consists of the Governor, the Treasurer, the Director of Finance, the Director of Water Resources, and the State Director of Health Services, or their designated representatives. A majority of the committee may act for the committee.

(b) For purposes of the State General Obligation Bond Law, the Department of Water Resources is designated the "board."

14033. The committee shall determine whether or not it is necessary or desirable to issue bonds authorized pursuant to this chapter in order to carry out the actions specified in Section 14011, and, if so, the amount of bonds to be issued and sold. Successive issues of bonds may be

authorized and sold to carry out those actions progressively, and it is not necessary that all of the bonds authorized to be issued be sold at any time.

14034. There shall be collected each year and in the same manner and at the same time as other state revenue is collected, in addition to the ordinary revenues of the state, a sum in an amount required to pay the principal of, and interest on, the bonds maturing each year, and it is hereby made the duty of all officers charged by law with any duty in regard to the collection of the revenue, to do and perform each and every act which shall be necessary to collect the additional sum.

14035. Notwithstanding Section 13340 of the Government Code, there is hereby appropriated from the General Fund in the State Treasury, for the purposes of this chapter, an amount that will equal the total of the following:

(a) The sum annually necessary to pay the principal of, and interest on, bonds issued and sold pursuant to this chapter, as the principal and interest become due and payable.

(b) The sum which is necessary to carry out the provisions of Section 14036, appropriated without regard to fiscal years.

14036. For the purposes of carrying out this chapter, the Director of Finance may, by written order, authorize the withdrawal from the General Fund of an amount or amounts not to exceed the amount of the unsold bonds which the committee has, by resolution, authorized to be sold for the purpose of carrying out this chapter. Any amounts withdrawn shall be deposited in the fund to be allocated by the board in accordance with this chapter. Any money made available under this section shall be returned by the board to the General Fund, plus the interest that the amounts would have earned in the Pooled Money

Investment Account from money received from the sale of bonds for the purpose of carrying out this chapter.

14037. All money deposited in the fund which is derived from premium and accrued interest on bonds sold shall be reserved in the fund and shall be available for transfer to the General Fund as a credit to expenditures for bond interest.

14038. The Legislature hereby finds and declares that, inasmuch as the proceeds from the sale of bonds authorized by this chapter are "proceeds of taxes" as that term is used in Article XIII B of the California Constitution, disbursement of these proceeds is not subject to the limitations imposed by that article.

14039. Any bonds issued and sold pursuant to this chapter may be refunded by the issuance of refunding bonds in accordance with Article 6 (commencing with Section 16780) of Chapter 4 of Part 3 of Division 2 of Title 2 of the Government Code. Approval by the electors of the state for the issuance of these bonds shall include the approval of any bonds issued to refund any bonds originally issued or previously issued refunding bonds.

14040. The board may request the Pooled Money Investment Board to make a loan from the Pooled Money Investment Account, in accordance with Section 16312 of the Government Code, for the purposes of carrying out the provisions of this chapter. The amount of the request shall not exceed the amount of the unsold bonds which the committee has by resolution authorized to be sold for the purpose of carrying out this chapter. The board shall execute such documents as are required by the Pooled Money Investment Board to obtain and repay the loan. Any amounts loaned shall be deposited in the fund to be allocated by the board in accordance with this chapter.

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project, program, or facility.

(3) An agreement by the local agency to proceed expeditiously with, and complete, the eligible project.

(4) A provision that there shall be no moratorium or deferment on payments of principal or interest.

(5) Local agencies seeking a loan shall demonstrate, to the satisfaction of the department, that an adequate opportunity for public participation regarding the loan has been provided.

(6) Any election held with respect to the loan shall include the entire local agency except where the agency proposes to accept the loan on behalf of a specified portion, or portions, of the agency, in which case the election shall be held in that portion or portions of the agency only.

(7) Annual principal and interest payments shall commence not later than one year after completion of any project and all loans shall be fully amortized not later than 50 years after project completion.

(8) The recipient of a loan shall establish a dedicated source of revenue for repayment of the loan.

(9) Any loans made pursuant to this chapter may be for a period of up to 20 years. The interest rate for the loans made for projects to be funded pursuant to Section 12879.5 shall be set at a rate equal to the interest rate paid by the state on the most recent sale of state general obligation bonds, with that rate to be computed according to the true interest cost method. The interest rate for loans made for projects to be funded pursuant to Section 12879.6 shall be set at a rate equal to 50 percent of the interest rate paid by the state on the most recent sale of state general obligation bonds, with that rate to be computed according to the true interest cost method. When the interest rate so determined is not a multiple of one-tenth of 1 percent, the interest rate shall be set at the next higher multiple of one-tenth of 1 percent. The interest rate set for each contract shall be applied throughout the repayment period of the contract. There shall be a level annual repayment of principal and interest on the loans. The amount of the principal shall include the administrative fee described in subdivision (b).

(d) All loans made pursuant to this chapter shall be subject to the approval of the Legislature by statute.

(e) Applications for loans or financial participation by the state under this chapter shall be made to the department in the form and with the supporting material as may be prescribed by the department.

(f) All money repaid to the state pursuant to any contract executed under this chapter, or under Section 13999.11, shall be deposited in the General Fund as reimbursement for payment of principal and interest on bonds authorized to be issued under this chapter or Chapter 15 (commencing with Section 13999) that have been paid from the General Fund.

(g) As approved annually by the Legislature in the Budget Act, the department, notwithstanding subdivision (b), may expend money repaid to the state pursuant to any contract executed pursuant to this chapter as necessary for the administration of contracts entered into by the department pursuant to this chapter. However, the expenditures may not in any year exceed 1.5 percent of the amount repaid to the state in that year. Charges incurred by the Attorney General in protecting the state's interests in the use and repayment of funds pursuant to this chapter may be paid by the department from these funds. However, the charges may not exceed 0.5 percent of the amount repaid to the state in that year. Any of the foregoing sums approved by the Legislature in the

Budget Act but unencumbered at the end of any year shall automatically revert to the General Fund.

12879.5. (a) The sum of twenty million dollars (\$20,000,000) of the money in the fund shall be deposited in the Local Water Projects Assistance Account and shall be available for loans to local agencies to aid in the construction of eligible projects.

(b) No eligible project may receive more than five million dollars (\$5,000,000) in loans from the department.

(c) In the administration of this section, the department and the California Water Commission shall give preference to projects involving the development of new basic water supplies which may include the enlargement of existing dams and reservoirs, and for projects that will remedy existing water supply problems. The department and California Water Commission shall set priority for loans pursuant to this section on the basis of the cost effectiveness of the proposed project with the most cost-effective projects receiving highest priority.

(d) If the water supply function of a dam and reservoir facility is operationally limited or eliminated for dam safety purposes, pursuant to Part 1 (commencing with Section 6000) of Division 3, the department and the California Water Commission may give consideration to projects which would rehabilitate the dam and reservoir for water supply purposes. The rehabilitation of facilities may include comparable replacement facilities.

(e) A copy of each application for a loan pursuant to this section shall be transmitted by the department to the Department of Fish and Game, the Department of Parks and Recreation, and the State Water Resources Control Board. A report on each application shall be prepared by the department and submitted to the Legislature, together with the comments of those agencies to which the application was transmitted. In the report, the department shall make findings as to the nature and extent of the statewide interest in the project, the urgency of the need, and the engineering feasibility, economic justification, and financial feasibility of the project.

(f) Not later than January 31, 1990, and each year thereafter, the department shall submit to the Legislature an annual report on all loans made pursuant to this chapter. The report shall cover loans made by the department during the previous calendar year.

(g) The department shall not make loans pursuant to this section for otherwise eligible projects whose benefits are more than 50 percent derived from hydroelectric generation, as determined by the department.

(h) The department may make loans to local agencies, at the interest rates authorized pursuant to this chapter and pursuant to any terms and conditions as may be determined necessary by the department, for the purposes of financing feasibility studies of projects potentially eligible for funding pursuant to this section. No single potential project shall be eligible to receive more than five hundred thousand dollars (\$500,000), and not more than 10 percent of the total amount of bonds authorized to be expended for purposes of this section may be expended for those purposes.

12879.6. (a) The sum of forty million dollars (\$40,000,000) of money in the fund shall be deposited in the Water Conservation and Groundwater Recharge Account and shall be available for appropriation by the Legislature for loans to local agencies to aid in the acquisition and construction of voluntary, cost-effective capital outlay water conservation programs and groundwater recharge facilities.